

How Thirsty Is the Russian Bear?

The Great CIA Oil Blunder

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WASHINGTON, D.C.—On May 17 of this year, Secretary of Defense Caspar Weinberger was asked on "Meet the Press" for the Reagan administration's rationale for selling the highly advanced AWACS radar planes to Saudi Arabia, over the passionate objections of the Israelis and their supporters in the United States.

Weinberger, himself deeply committed to the sale, replied: "[The AWACS's] principal use, and the principal reason the administration is supporting the sale to the Saudis, is that it would enable them to oversee and look much further into the invasion routes of Iran and Iraq and Afghanistan, where a possible Soviet thrust to the oilfields may come. With the Soviets going to be an energy importing nation in a few years, I think that is an essential capability to have."

But even as Weinberger once again invoked the specter of an oil-starved Soviet Union plunging towards the Gulf, he was well aware that not only had his own Defense Intelligence Agency long disputed this scenario, but that the Central Intelligence Agency was in the process of confessing to one of the most egregious failures of intelligence analysis of recent times, in its own estimate of Soviet energy needs in this decade.

Earlier that week CIA analyst James Noren had disclosed in a seminar at Harvard that the CIA had prepared a new report conceding that the Soviet Union would have no need to import oil by the mid-1980s. Two days after Weinberger's appearance on Meet the Press, Bernard Gwertzman reported Noren's remarks and the existence of the new CIA estimates in *The New York Times* for May 19.

Thus disappeared one of the major rhetorical planks of the Reagan-Haig foreign policy. For both the present administration and indeed its predecessor had proposed an impending Soviet energy crisis as the prime reason for the development of

the Rapid Deployment Force and a U.S. military buildup in the Gulf region and the Indian Ocean. This view went almost undisputed throughout the 1980 election campaign, even though it seems that by the fall of last year the CIA was well aware that the predictions on which this view was based were ludicrously wrong.

Birth of a Blunder

The CIA's blunders began to circulate in 1977. In that year the Agency's Office of Economic Research issued a series of reports that amounted to major modifications of intelligence estimates of Soviet economic trends. In a report called "Prospects for Soviet Oil Production," the Agency predicted that Soviet oil output would start to fall by the late 1970s or early 1980s and that this drop could slow the growth of total energy production. "More pessimistically," the CIA said, "the USSR will itself become an oil importer." The report added that during the 1980s the Soviet Union might find itself unable to sell oil abroad, notably to its Eastern European clients, and would therefore have to compete for OPEC oil for its own use.

In a broader assessment the Agency concluded that the rate of growth of Soviet GNP was likely to decline by the early and mid-1980s to between 3 and 3.5 per cent per annum and could even sink as low as 2 per cent. This view was partly based on predictions of worsening problems in the energy sector.

Not everyone agreed with this dire estimate, which was instantly seized upon by the arms lobby as further justification for a major U.S. defense buildup, battling a presumed Soviet grab for new sources of oil. The Defense Intelligence Agency flatly dissented. And a major rebuttal came from the Joint Economic Committee in Congress, in March 1978.

This rebuttal took the form of a staff study by Richard F. Kaufman, the committee's general counsel. On the basis of

inquiries in Europe, Kaufman argued:

- Not only was the Soviet Union the world's largest producer of crude oil at the present time, but it had also the largest proven reserves of coal and natural gas. Its oil reserves were probably second only to those of Saudi Arabia, and it continued to make impressive gains in the development of its energy resources.

- In addition to supplying its own needs and those of Eastern Europe, Soviet energy exports to the West were on the increase, with oil exports worth \$5 billion in 1976.

- The boom in oil and gas pipeline construction in the Soviet Union suggested that the country was giving high priority to the energy sector. The Soviets had built 5000 miles of pipeline in 1976 and 10,000 miles in 1977.

- The hard currency earned from oil sales to the West and the influence gained from sales to Eastern Europe were too important to Moscow to be lost by default: "Soviet leaders will probably take the policy initiatives necessary to preserve the USSR's status as a net oil importer. Possible new actions include major increased investment in the energy sector, substitution of natural gas and other energy sources for oil, and conservation."

The Blunder Reversed

Kaufman's assessment made little or no dent in the Washington consensus. The Soviet move into Afghanistan was seen, in the worsening cold war climate of late 1979 and early 1980 as but the prelude to more far-reaching incursions, all climaxing in an assault on the Middle Eastern oil jugular to the West.

In mid-1980 Senator William Proxmire held closed hearings in which he asked the DIA and the CIA for their latest views on Soviet oil production. A sanitized version of these hearings has now been released.

Frank Doe of the DIA put his agency's unchanged position straightforwardly: the Soviet Union had enough reserves and pipeline capacity to replace the declining older fields.

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Some sections of the released and sanitized testimony seem to show the CIA still stubbornly sticking to its guns—that the Soviet Union would be hunting for oil beyond its borders within five years. But experts could detect some unease among the Agency's analysts. 1980 and 1981 were crucial years in terms of the CIA's predictions. The energy production of the Soviet Union would have to start falling. But there seemed to be little sign of such a drop. At the end of last year, Soviet production statistics showed the opposite, and the figures for the first quarter of 1981 showed oil production at a dismayingly prolific 12.1 million barrels a day.

In effect, the game—so far as the CIA was concerned—was up. A new, revised report was prepared, and CIA analyst Noren disclosed its conclusions at Harvard, just barely ahead of a fierce attack on the CIA's momentous blunder by Senator Proxmire.

Why the CIA Erred

There have been similarly far-reaching errors of intelligence analysis by the CIA in the past, and many of the surges in U.S. defense spending over the last 20 years have been justified on the basis of such faulty conclusions by the Agency. But exactly how, in this miscalculation of the energy resources of the second largest economy in the world, did the Agency go wrong?

A highly knowledgeable analyst in this area suggests the following.

In the wake of the oil shocks in 1973 and 1974, the CIA's Office of Economic Research decided to upgrade its analysis of oil production and requirements, breaking the world down into four sectors: OPEC, the advanced OECD industrial nations, the Communist bloc, and the underdeveloped nations.

Now there is nothing particularly mysterious about the acquisition and analysis of data on a given country's energy production or requirements. First, there is the question of reserves; second, the nature and scale of production technology being employed; third, the rate of production. Factored in are allied data about the overall economy, refining capacity, trends in consumption, and presumably such intelligence inputs as satellite data on fuel transportation patterns and so forth.

(If there is no mystery, it should be added that there is certainly much doubt about the results of such analysis, as may be appreciated by the fact that the natural gas industry in the United States was able to proclaim—amid fierce congressional inquiry in the late 1960s and early 1970s—

that the U.S. faced a crisis in the available reserves and supply of that fuel. A short while later, with the deregulation of the price of natural gas achieved under President Carter, the industry conceded that the opposite was in fact the case: there was a surplus, not a shortage of natural gas.)

The CIA, it seems, based its predictions of Soviet energy requirements on its knowledge of OPEC reserves and production rates. It established a model of the path oil fields follow—with gradually increasing and then sharply declining yields—and transferred this model to the Soviet Union and other Communist bloc countries.

But the CIA made two disastrously erroneous assessments of Soviet production rates and reserves. In 1977 the Agency suggested that the Soviet Union was accelerating oil production in certain fields by the technique of pumping in water to improve outflow of oil. By 1979 Soviet production patterns were not tracking with the predicted decline, and the Agency had to abort its water-pumping theory. It

followed this error by computing Soviet reserves at exactly half the commonly accepted estimate. Garbage in, garbage out. The CIA's model may have been right, but the reserve data were totally wrong.

Pondering the CIA's mistake and the DIA's success, this knowledgeable source says: "The DIA always believes in what the Soviet Union claims [i.e., its own reserve and output statistics] more than the CIA. The CIA has to be skeptical about anything the Soviet Union claims. The CIA got carried away with skepticism."

"And once the CIA decides something, it finds it hard to back down. If we make mistakes," the Agency reasons, "people will stop believing us. So don't change the estimates." Once the CIA makes an error, it is not very good at going back on it. The CIA has got the idea you can present an estimate with the same authority as a photograph. But you can't do this."

Intelligence Wars

This latest blunder will reinforce the sizeable number of critics in Washington who argue that the CIA analytic record has been disgraceful for many years. Such criticism is of course highly politicized. In 1976 then CIA director George Bush accepted the not-unreasonable contention—bitterly fought by the Agency's in-house analysts—that the CIA's estimates should be reviewed by outside experts. But the

experts assembled under Professor Richard Pipes (now in the National Security Council) in the famous "Team B" were uniformly ultra-hawkish and merely fuelled the onslaught on SALT II which culminated in its shelving by President Carter in late 1979.

This in-fighting is now once again in full swing. Some members of the Reagan transition team inspecting the CIA at the start of this year, most notably former congressional intelligence committee staffer Angelo Cordovilla, were harshly critical of CIA analysis and recommended a brusque spring-cleaning. This challenge was fought off.

But the semi-secret struggle has continued. Leaks, attributed to "CIA insiders," suggest that new CIA chief William Casey is trying to "politicize" the Agency in the interests of the Reagan administration. A recent CIA report, discounting Soviet backing for worldwide terrorist subversion, was an insultingly direct assault

on the Reagan-Haig claim to the contrary and was touted by the "insiders" as just the sort of work a CIA immune to political dictate could produce. In sum, the CIA's regulars were courting public opinion, against any onslaught by Reagan's men.

Data-free Doctrine

The Great Soviet oil blunder has therefore produced some entrancing ironies. The Reagan administration is showing little eagerness to pounce upon the CIA regulars for this mistake, for an oil-hungry Soviet Union is crucial to Reagan-Haig foreign policy rhetoric. The Israeli lobby opposing the sale of the AWACS to Saudi Arabia will be similarly loath to argue that the revised estimates of Soviet oil output disprove Weinberger's main argument for the AWACS sale, for the lobby takes as an axiom the need for continuing total support of Israel as the U.S.'s main bastion against Soviet expansionism in the Middle East.

In short, if there had not been a Soviet energy crisis it would have necessary to invent it. There is—as the CIA admits—no such crisis, but the need for invention remains.